

FOREIGN POLICY ASSOCIATION

Information Service

EIGHTEEN EAST FORTY-FIRST STREET, NEW YORK CITY

Fact data on international questions for reference use

VOL. II—No. 6

MAY 22, 1926

CONTENTS

	Page		Page
The Concession Area	69	Attitude of the Iraq Government	73
Terms of the Concession	69	The T. P. Co. As An Influential Ally ..	74
The Concession Not a Monopoly	71	Fifteenth Year of Existence	75
Additional Privileges	71	British Influence a Dominating Factor	75
Rights of Iraq Safeguarded	71	Development Postponed by the War ..	76
Will Mesopotamian Oil Pay?	72	American Participation	76
How Much Oil Is There?	72	American Obligations Met by the Com-	
Expensive Transportation	72	pany	77
Facilities Granted by France	73	The Immediate Outlook	77

Issued fortnightly by the FOREIGN POLICY ASSOCIATION, 18 East 41st St., New York City.
JAMES G. McDONALD, *Chairman*; GEORGE M. LAMONTE, *Treasurer*; CHRISTINA MERRIMAN, *Secretary*

Telephone, VANDERBILT 5740
Subscription Rates on Request.

American Oil Interests in Mesopotamia

THE TURKISH PETROLEUM COMPANY

IT WAS recently announced that, subject to ratification, participation by a group of American companies in an international project for the development of Mesopotamian oil resources was agreed upon in the month of April in London. The announcement is significant in a number of aspects. It means that American interests are to become directly involved in the development of an area which has been a political storm-centre in the Middle East for the last three years. It means that American companies are for the first time cooperating with foreign companies in large-scale oil operations—an experiment in the international exploitation of raw materials which will be carefully observed by all students of world politics and by students of the Near East in particular. It means that after the long delays of over two decades work can now be begun in what some believe to be a new oil field of first rank and on a scale commensurate with the expectations aroused by rumors of the extent and wealth of Mesopotamia's petroliferous areas.

The American interests which have decided to participate in the Turkish Petroleum Company represent some of the best-known groups in the United States. They include the Standard Oil Company of New York, the Standard Oil Company of New Jersey, the Pan-American Petroleum and Transport Company, the Gulf Refining Company and the Atlantic Refining Company.

Together these American groups hold twenty-five per cent of the stock of the Turkish Petroleum Company and will be entitled to twenty-five per cent of the oil (unrefined) actually taken out of the ground in Iraq. The remaining seventy-five per cent of the shares and of the crude petroleum is divided equally among British, Dutch, and French interests, so that each holds a quarter of the shares of the Company. To the Anglo-Persian Oil Company, founded in 1909 and controlled since 1914 by the British Government, have been committed British interests in the Turkish Petroleum Company. Dutch capital is represented by the Royal Dutch-Shell combine,

in which the British Shell companies are said to hold a forty per cent interest and in which British influence has been given a particularly conspicuous place since 1915, when Sir Henri Deterding, director of the Royal Dutch Company, acquired British citizenship. French interests are represented by the *Compagnie française des pétroles*, a consortium of sixty-seven oil companies and financial concerns. Together the capital of the four national groups participating in the Turkish Petroleum Company is generally quoted in the press as being close to one billion dollars. Whether or not this estimate is correct, the company does not lack strong financial backing.

THE CONCESSION AREA

The area to be exploited by the Turkish Petroleum Company adjoins the rich Persian oil fields now being developed by the Anglo-Persian Oil Company. It comprises over two-thirds of the Kingdom of Iraq, excluding only the low marshy lands of Basra Vilayet in the extreme south and the oil-bearing lands of the Transferred Territories along the Persian border in the east. The latter have been reserved for exploitation by the Anglo-Persian Oil Company, within the limits of whose concession they lay before the 1914 boundary rectifications resulted in their relinquishment by Persia to Mesopotamia.

Within the Vilayets of Baghdad and Mosul where the Turkish Petroleum Company's concession is to be effective a few oil wells are already in operation. German enterprise was responsible for sinking some of these during the pre-war period when the Baghdad Railroad was under construction. British war-time needs caused the continued operation of these in the subsequent period when Iraq was gradually being occupied by a British expeditionary force. But this constituted the merest beginning of oil development in Mesopotamia.

The adequate exploitation of Iraq's undeveloped oil fields has interested an international group because of the supposed wealth of the field concerned. But it has interested more than the private oil promoters of England, France, Holland and the United States. Because Great Britain exercises a mandate for the Kingdom of Iraq the Brit-

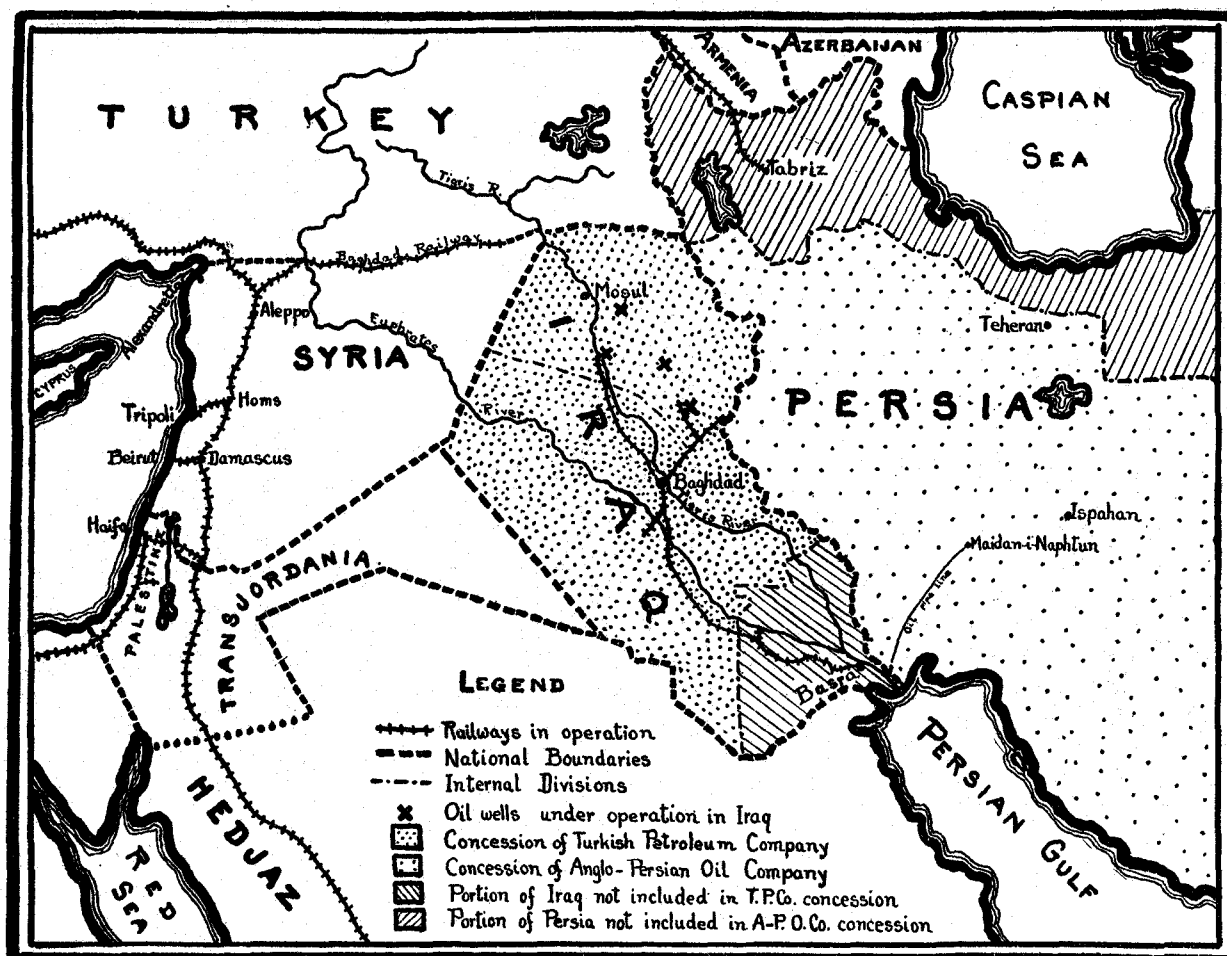
ish Government itself is also directly concerned to see that the natural resources of the country shall be made to pay dividends at as early a date as possible. Official British influence thus did nothing to hinder the Turkish Petroleum Company in its attempt to secure from the Iraq Government a broad concession. Furthermore, the prosperity of the Anglo-Persian Oil Company, owned by the British Government, is a matter of concern to every British taxpayer; and Anglo-Persian participation in the Turkish Petroleum Company is in a sense a British Government participation.

It must be recalled that whereas the concession of the Turkish Petroleum Company covers a period of seventy-five years, the British mandate is to terminate as soon as Iraq is admitted to the League of Nations as an independent state. Twenty-five years is suggested as the period in which the change from semi-dependence to complete sovereignty may be effected. Thus it is not unlikely that whereas the oil concession was granted by Iraq authorities acting in co-operation with and under the advice of resident British officials, the dealings of the government of an independent Iraq with the Turkish Petroleum Company in the latter portion of the century may be entirely independent of official British cognizance.

TERMS OF THE CONCESSION

The terms under which the Turkish Petroleum Company is to develop the Mesopotamian oil fields are embodied in a convention entered into with the government of Iraq on March 14, 1925, whereby a seventy-five year concession was conferred on the company for exploiting the oil resources of Iraq exclusive of the Vilayet of Basra on the Persian Gulf and the Transferred Territories near the Persian border. This means that since the League announced its award in the Turco-Iraq boundary dispute on December 17, 1925, the Turkish Petroleum Company has been officially recognized as having for its sphere of action not only the Vilayet of Baghdad but also the greater part of the former Turkish Vilayet of Mosul as well.

Within this area the Company agreed to commence at least three separate geological surveys before November 14, 1925. It



Prepared by the Foreign Petroleum Association.

OIL DEVELOPMENT IN THE MIDDLE EAST

was stipulated that by November, 1927, the Company should have selected for development twenty-four rectangular plots of land each eight square miles in area. By March, 1928, drilling operations were to have been begun. Between March, 1928 and March, 1931, 36,000 feet of test drilling were to have been completed with 12,000 additional feet for every subsequent year until all the plots should have been fully tested, or until a pipeline should have been ordered to convey the oil to a convenient port. In any case such a pipeline was to be ordered within four years of the completion of test drilling. Failure of the Company to perform these successive undertakings within the specified time limits was in most cases to invalidate the concession. Exception was made in case of delays arising from *force majeure*.

Before July, 1925, the Company was to deposit with the British Government secu-

rities to the value of £35,000, which would be returned to the Company when it had spent £70,000 upon its operations in Iraq, but which were to be forfeited in case of cancellation of the concession for any cause specified in the Convention. The Company, on its part, was granted the right, on giving three months' notice, to abandon permanently to the Iraq Government all its rights in the Mesopotamian area. If such abandonment occurred before the year 1955 the Company was to be entitled to remove its property, free of all taxes and duties, subject only to the condition that within three months after receiving notice of abandonment the Government might take steps to purchase such property at a price to be agreed upon or settled by arbitration.

The Company was empowered by the Convention to construct such terminal facilities, stores, and other buildings as it might require. It was also given the right to build

narrow-gauge railways and operate telegraph and telephone lines, provided the plans for these items had first been submitted to the Government, which should not unreasonably withhold its approval.

THE CONCESSION NOT A MONOPOLY

Iraq oil lands not included within the twenty-four plots first selected by the Turkish Petroleum Company were to be leased gradually to competent corporations or individuals under the supervision of the Government of Iraq through the agency of the Turkish Petroleum Company. For this purpose twenty-four blocks of land each eight square miles in area were to be competed for annually by sealed tender. Anyone, including the Turkish Petroleum Company itself, might compete. Leases were to hold good for the remaining period of the seventy-five year concession, a uniform rate of £55 per annum being charged. They were to be granted to the highest bidder, regardless of nationality, unless such bidder were disapproved on reasonable grounds by the Government. One third of the capacity of the Turkish Petroleum Company's pipeline was to be available for the transportation of oil produced by lessees, at a cost to them not exceeding one-twelfth of an anna or about three-sixteenths of a cent per barrel per mile.

ADDITIONAL PRIVILEGES

The Government undertook to provide the Turkish Petroleum Company with such lands as might be necessary for the purposes of its business, leasing to it non-arable Government lands at a rent of two annas per hectare per annum* and arable lands at a fair rate based on their surface value. Private lands would, if necessary, be expropriated in the interests of the Company.

No customs duties were to be levied upon machinery and other materials imported by the Company for use in developing, refining, storing and transporting oil. The Company's products, moreover, were to be exempted from export duties.

*Approximately 1½ cents per acre. The anna is equivalent to one-sixteenth of a rupee in the Indian currency which replaced Turkish currency in Iraq shortly after the British occupation became effective. The rupee is approximately equivalent to 36 cents.

RIGHTS OF IRAQ SAFEGUARDED

In return for these rights and privileges the Turkish Petroleum Company undertook to keep the Iraq government fully informed of its progress and provide all facilities at its own expense for government inspection. It was to pay to the Iraq government royalties at the rate of four gold shillings per ton until a date twenty years after the completion of the pipeline. Thereafter royalties were to be increased or reduced according to the rate of profit or loss experienced by the company in the operation of its holdings.

It was specified in the Convention that prices charged at Iraq refineries on petroleum required by the country itself should be lower than prices charged for similar grades at Swansea in Wales. Various rates of discount were specified for the different periods of development. Until completion of the pipelines the price in Iraq was to be at least 35 per cent lower than Swansea prices. Inhabitants of localities in the defined area who had been accustomed to taking petroleum free of cost were to be furnished by the Company gratis for local consumption the amount of petroleum which they had been accustomed to use.

Several other clauses made provision for the safeguarding of Iraqi rights. As far as possible, Iraqis were to be employed by the Company. Technical experts, managers and skilled workmen might be brought from other countries, provided that as early as possible the Company would undertake to train Iraqis for such positions, at least to a reasonable extent. Furthermore, whenever an issue of shares was offered by the Company to the general public Iraqis in Iraq were to be given preference to the extent of at least twenty per cent of the issue. Finally the Iraq Government retained the right to appoint a representative to the Company's Board of Directors to serve in the same capacity as other Directors and to enjoy the same emoluments, rights and privileges.

Upon the expiration of the seventy-five year period of the concession the Iraq Government was to acquire free of charge all the Company's land, buildings, wells,

wharves, roads, pipe and railway lines, machinery, plant and fixtures of every sort used for the Company's operations in Iraq. The Government reserved the right to terminate the Convention and take without payment all the property of the Company within Iraq, including the oil collected in storage tanks and elsewhere, as penalty in case of non-payment within six months after the close of any year of the full royalties due for the preceding period.

It was further stipulated that no petroleum should be exported from the country until Iraq's requirements had first been met. There was to be reserved for the Government and kept in stock at least twice the amount of refined products consumed monthly by the Government. On the occasion of a state of emergency, of whose existence the Government was to be the sole judge, the Company was to use its utmost endeavors to increase the supply of petroleum for the Government's own consumption to the extent the Government should require. The Government was in such case to afford the Company all reasonable assistance.

In case of war the Government was to have the right to use the Company's railways, other means of transport, bridges, wharves, telegraphs and telephones within Iraq on payment of a fair compensation.

Provision was made for settlement of all disagreements between the Company and the Government by a board of three arbitrators.

The Company was to be at liberty to form one or more subsidiary companies, under its own control, for the working of the concession. Whatever the national affiliation of such subsidiary companies, the Turkish Petroleum Company itself was to be and remain a British company, registered in Great Britain and having its headquarters within His Britannic Majesty's dominions. Its chairman was at all times to be a British subject.

WILL MESOPOTAMIAN OIL PAY?

This Mesopotamian enterprise in which American capital is now invested presents a number of difficulties which must be successfully overcome before profits can begin to be realized. Now that the composition

of the Turkish Petroleum Company has been settled and a legal concession has been obtained, it remains first to determine whether oil actually exists in Mesopotamia in quantities that will repay the requisite heavy expenditure. Eighteen months now remain of the time allotted under the terms of the Convention for surveying the entire field. Before that time expires the Company must select the precise blocks of land it wishes to acquire for development.

HOW MUCH OIL IS THERE?

Accordingly within the specified period large-scale geological expeditions will have to cover the whole area of the concession in the two Vilayets of Baghdad and Mosul (approximately 89,000 square miles), elaborating the comparatively sketchy surveys upon which dependence has hitherto had to be placed. The location of seepages is relatively well known; but although anticlines of oil-bearing strata are in a general way already indicated, much supplementary information is needed about underlying stratifications. Pits must be dug to verify conjectures as to the dip of the earth's formations, structural foldings and the location of faults. The proved wealth of the adjacent oil fields in Persia and the persistence throughout historical times of seepages in Mesopotamia itself have encouraged oil promoters and the public alike to believe that important oil reservoirs are hidden under the sands of the Euphrates and Tigris river valleys. But until actual drilling has commenced there can be little real knowledge of the extent of the oil deposits. And actual drilling will not commence on an important scale until a full survey has been made. To direct the survey thirty geological experts were in Iraq as early as September, 1925, three months before the League Council had rendered its award in the Mosul boundary dispute. But until their report is presented a degree of uncertainty must exist as to the value of the concession acquired by the Turkish Petroleum Company.

EXPENSIVE TRANSPORTATION

Another important difficulty faced by the Company is the fact that the field to be opened up is difficult of access. This will necessi-

tate the building of a pipeline five or six hundred miles long to the Mediterranean Sea. The pipeline, in turn, will in all probability require a railroad paralleling it throughout its entire length. Contractors who surveyed the location of a possible pipeline from Iraq to Palestine through territory under British mandate, for example, recommended a railroad linking the Iraq lines with the Hedjaz railway. This plan would involve constructing a railroad across country now traversed only by caravan, automobile or aeroplane. The actual location of such a railway has not yet been determined. Its terminus would not necessarily be in Palestine. By the San Remo Oil Agreement of April 24, 1920, alternative provisions were made for running a pipeline or pipelines through Syrian territory under French mandate. Articles X, XI and XII of that agreement made the following provision:

**FACILITIES GRANTED
BY FRANCE**

"X. . . . The French Government shall agree, if it is desired and as soon as application is made, to the construction of two separate pipelines and railways necessary for their construction and maintenance and for the transport of oil from Mesopotamia and Persia through French spheres of influence to a port or ports on the Eastern Mediterranean. The port or ports shall be chosen in agreement between the two Governments.

"XI. Should such pipeline and railways cross territory within a French sphere of influence, France undertakes to give every facility for the rights of crossing without any royalty or way leaves on the oil transported. Nevertheless, compensation shall be payable to the landowners for the surface occupied.

"XII. In the same way France will give facilities at the terminal port for the acquisition of the land necessary for the erection of depots, railways, refineries, loading wharves, etc. Oil thus exported shall be exempt from export and transit dues. The material necessary for the construction of the pipelines, railways, refineries, and other equipment shall also be free from import duties and way leaves."

It was upon the basis of the foregoing San Remo Agreement that French capital was admitted to participation in the Turkish Petroleum Company. (See below, p. 76.) Whether or not the pipeline and accompanying railroad will actually be laid through Syrian territory is, however, a matter to be decided in the future. The only point which is yet clear is that the Baghdad Railway line, already providing means of communication between Nisibin, sixty-five miles from the Mosul border, and the Mediterranean port of Alexandretta, is unsuitable for use as a part of the transportation system of the Turkish Petroleum Company because it is contiguous to Turkey, a country for the present, at least, unfriendly to Great Britain.

The geological survey and construction of railway and pipeline will represent heavy initial expenditure. Other important outlays must also be made before oil can be produced commercially by the Turkish Petroleum Company. Among these will be the cost of installation of tanks, drilling gear, bridges, pumping stations, wharves, and terminal facilities. It is generally estimated that at least ten years must elapse before adequate returns may be expected on these heavy investments.

**ATTITUDE OF THE
IRAQ GOVERNMENT**

At more than one period in the long negotiations which preceded the definitive granting of a concession to the Turkish Petroleum Company it seemed doubtful whether that group would succeed in obtaining the desired permission to exploit Mesopotamia's oil resources. Thus in 1924 and 1925 considerable opposition to the Turkish Petroleum Company developed within Iraq itself. It was alleged that the terms it offered to the Iraq Government were less advantageous than those offered by its two competitors. The knowledge that the Anglo-Persian Oil Company had used its monopoly in southern Persia to raise the retail price of oil above the prices current in neighboring countries created another specific objection to the Turkish Petroleum Company, in which the Anglo-Persian Oil Company held a greater share than any other single company. It took eighteen months of nego-

tiation with the Baghdad authorities before Captain E. H. Keeling, the representative of the Turkish Petroleum Company, succeeded in securing the concession. Toward the end of this period there were flurries of protest in the local Arabic press against the granting of a concession by the Cabinet before the summoning of Iraq's first regularly elected assembly, whose assent, it was urged, was necessary in so grave a matter as transferring to foreign control what was supposed to be one of the most important economic assets of the country. There were rumors that the entire Cabinet would resign rather than consent to the alienation of the oil resources of Iraq.

These prophecies were not fulfilled, however. The Cabinet took full responsibility for dealing with the oil concession and did not call upon Parliament to support its decision. In spite of the local unpopularity of the proposal it did permit powerful foreign interests to assume direction of the development of Mesopotamian oil resources. This precipitated the resignation of only two members of the Cabinet—the Ministers of Justice and Education—who took exception to the clauses governing the payment of royalties to the Iraq Government. They reminded their colleagues that by the San Remo Agreement of April 24, 1920, France and Great Britain had provided that in case a private petroleum company were formed to develop Mesopotamia's oil resources, the native Government or other native interests should be allowed, if they so desired, to participate up to a maximum of twenty per cent of the share capital of the company. The French interests were to contribute one half of the first ten per cent of such native participation and the additional participation was to be provided by each participant in proportion to his holdings. On the ground that an arrangement along these lines would have been much more advantageous to Iraq than the substitution of the four-shilling royalty on every ton produced, the dissenting members of the Iraq Government protested the action of their colleagues. They took the position that the San Remo Agreement was legally binding upon Great Britain and France, hence also upon the Turkish Petroleum Company. The Company itself, however, refused to accept

this point of view. It had not been party to the San Remo Agreement and refused to be bound by a disadvantageous clause thereof. The majority of the Cabinet members were satisfied with the compromise whereby Iraqi nationals were given preference to the extent of twenty per cent of any issue of shares by the Company to the general public, and by other clauses already referred to safeguarding the rights of Iraqis.

THE T. P. CO. AS AN INFLUENTIAL ALLY

What appears to have won the Iraq concessions for the Turkish Petroleum Company was the strength and wealth of the Company, the poverty of Iraq itself, the influence of the British authorities, and the Turkish menace on the northern boundary of Mosul. In addition the Turkish Petroleum Company contended that it had certain prior claims based upon a concession of 1914. (See below, p. 76.) The Turkish Petroleum Company was regarded as the only company which had the financial resources and the technical equipment at its command to ensure the proper exploitation of the remote oil resources of Iraq. Iraq badly needed the royalties that an efficient company was expected to be able to pay. Iraq had started as a bankrupt, as the press pointed out; it could neither balance its budget nor pay its share of the Ottoman Public Debt. The oil of the Mosul and Baghdad districts constituted the only asset where-with it could raise money to develop its resources, finance projected irrigation works and schemes for wheat and cotton growing. From the point of view of the British occupying authorities, who were mindful of the complaints of taxpayers at home, it was highly desirable that oil development should be taken in hand as early as possible. These factors counted largely in favor of the Turkish Petroleum Company.

The Prime Minister, Yasin Pasha, was influenced in his decision by another consideration which must not be lost sight of. The northern boundary of Iraq was in dispute at the time, Turkey claiming that it should lie considerably south of the city of Mosul, and Iraq, backed by Great Britain, urging that it be drawn considerably north of that city. In effect the ownership of

approximately the entire former Turkish Vilayet of Mosul was claimed by both parties.

The dispute had not been settled at the Lausanne Conference in 1923; but it had been thoroughly discussed at the time and Turkey had then emphasized its territorial claims by granting to an American company a concession for the development of a large part of Turkey's natural resources, including the oil reserves of the Mosul Vilayet. It was a reply in kind when in March, 1925, nine months before the League Council made its award in the boundary dispute, the Iraq government made provision whereby the Turkish Petroleum Company might develop Mosul's oil resources in the event of that territory being definitively awarded to Iraq. Yasin Pasha was quoted in *Al-Istiklal*, a Nationalist Baghdad daily, as having said that the Turkish Petroleum Company had been granted a concession by his government because "at the moment it was necessary to make a public claim to the territory whose ownership Turkey was contesting." To take it for granted that the boundary award would be favorable to Iraq was thought to be good tactics. Moreover, to expedite a favorable boundary award it was thought to be a distinct advantage to Iraq to secure the goodwill and moral support of the powerful concerns included in the Turkish Petroleum Company. Refusal of the concession might encourage the influential petroleum companies to support Turkey's claim to the disputed territory at the expense of Iraq.

FIFTEENTH YEAR OF EXISTENCE

Although it is only within the past few months that the Turkish Petroleum Company has entered upon an active career as a regularly constituted body possessed of a recognized concession, the Company itself has already been in existence for fourteen years. Its history hitherto has been one of difficult negotiations, exasperating delays, and important changes in composition.

It was first formed in 1912 as a joint-stock company with capital of £80,000 by Sir Ernest Cassell, a director of the Bank of England, who subsequently became presi-

dent of the National Bank of Turkey. In this company, registered in England as the Turkish Petroleum Company, German and Dutch interests were granted a share. Its purpose was to acquire a monopoly in the Mesopotamian oil fields—at that time within the sphere of Turkish jurisdiction—and to prospect for oil in other parts of the Ottoman Empire as well.

The Turkish Petroleum Company was not the first in the field, however. It had been preceded by at least three other groups. There had been first the Deutsche Bank, which in 1904 had carried out a survey of Mesopotamian oil fields with the concurrence of the Sublime Porte by which it had been granted a year's option on a scheme for the joint exploitation of the oil fields on behalf of German and Turkish interests.

In 1906, the German option having been unredeemed, Mr. W. K. D'Arcy, who himself had large interests in the oil fields of Persia, made application to the Ottoman Government without much success for the right which the German group had allowed to lapse. Two years later the Royal Dutch and Shell interests entered the field and began negotiations which they hoped might lead to the securing of a Mesopotamian oil monopoly.

The Turkish Petroleum Company, the fourth competitor in the field, managed to secure the support of the Dutch and German interests already concerned in negotiations with the Ottoman Government; but it did not absorb the rival D'Arcy group. The independent position of Mr. D'Arcy had on the contrary been strengthened when in 1909 he organized the Anglo-Persian Oil Company to handle his Persian claims and Mesopotamian prospects.

BRITISH INFLUENCE A DOMINANT FACTOR

The whole decade of 1904 to 1914 was a period of rapid expansion of German financial and economic influence in Turkey. It was also a period of resistance to German expansion by Great Britain, which viewed with some concern the proposal to build to the Persian Gulf a railway under German or international auspices. The British government's determination to retain control of the Persian Gulf and its desire to reap what-

ever benefits might be derived from participation in the construction of the Baghdad Railway led to a number of conversations in the latter part of the decade involving Great Britain, Germany and Turkey. It was out of these conversations that an arrangement grew (March 19, 1914) for reorganizing the Turkish Petroleum Company. According to this agreement the Anglo-Saxon Petroleum Company, a combine of the Royal Dutch and Shell interests, was allotted twenty-five per cent of the shares of the Turkish Petroleum Company, the Deutsche Bank twenty-five per cent and the D'Arcy group (the Anglo-Persian Oil Company) fifty per cent. Thus the first regrouping of the Turkish Petroleum Company eliminated its original organizer, Sir Ernest Cassell, in favor of his rival, Mr. D'Arcy. The Anglo-Persian Oil Company, founded by the latter, was now controlled by the British Government which had bought a large number of its shares. Thus, through the Anglo-Persian Oil Company the British government controlled the Turkish Petroleum Company as well.

DEVELOPMENT POSTPONED BY THE WAR

The reorganized company lost no time in preparing to enter upon active work. On its behalf the British and German governments asked the Sultan to grant a concession to develop the oil fields of the two Vilayets of Baghdad and Mosul, whereupon the Ottoman government undertook in principle to lease all oil fields of the designated territory to the Turkish Petroleum Company on condition that the company come to an agreement concerning details of the concession with the Turkish Ministry of Finance, which controlled the disposition of the Mesopotamian oil reserves, and that it agree to indemnify persons having a legal claim to participation in the concession. These reservations, especially the latter, became the subject of further negotiations, which, however, were effectively terminated not long afterward by the outbreak of the Great War.

The British occupation of Mesopotamia during the war put an entirely new face on affairs. By the Lausanne Treaty of July, 1923, Turkey definitely ceded the Vilayets of Baghdad and Basra to the Arab State

of Iraq for which Great Britain held a mandate. The Vilayet of Mosul, although not ceded by Turkey, continued to be under effective occupation by the British as it had been since 1918, pending the special boundary decision for the settlement of which provision was made in the Lausanne Treaty. Meanwhile Great Britain exerted every effort to prevent the disputed territory from reverting to Turkey, and finally succeeded in securing a favorable decision from the League Council, in which, however, Turkey has hitherto refused to concur.

AMERICAN PARTICIPATION

During the delays incident upon the war and the protracted boundary negotiations which followed, the Turkish Petroleum Company underwent several structural changes. In 1918 the twenty-five per cent share formerly belonging to the Deutsche Bank was expropriated and added to the British holdings. This gave Great Britain temporarily seventy-five per cent of the shares of the Turkish Petroleum Company. British influence was strongly felt, moreover, in the management of the remaining shares which were nominally Dutch. (See p. 69.) In 1920, however, according to the terms of the San Remo Agreement, French interests were admitted to twenty-five per cent participation in the Turkish Petroleum Company, reducing British holdings to fifty per cent once more.

No further reorganization of the Turkish Petroleum Company occurred until September, 1925, when British holdings were reduced to twenty-five per cent in order to permit an American group to participate on equal terms with the French and Dutch interests. As late as 1920, when the San Remo Agreement was drawn up, American participation in the development of the Mesopotamian field by the Turkish Petroleum Company had not been contemplated. American participation developed, however, out of objections to that very agreement. Mr. Bainbridge Colby, Secretary of State at Washington, protested to Lord Curzon that the San Remo Agreement implied a violation of principles embodied in the League Covenant in that it created a monopoly within a mandated area where it had been agreed that the open door prin-

ciple should be observed. He also objected to the San Remo Agreement because it presupposed the validity of the unsubstantiated Turkish promise of a concession made in June, 1914, and because it infringed upon the rights of Iraq which alone could grant concessions in the Vilayet of Baghdad. Finally, it ignored American interests, which, as a result of America's participation in the war, had every right to consideration. A long correspondence ensued between Washington and London. At the Lausanne Conference the American delegation continued to urge recognition of the open door principle. But when the American group was admitted to participation in the Turkish Petroleum Company the protests of Washington were silenced, and nothing more was said officially about equality of opportunity for all comers.

AMERICAN OBJECTIONS MET BY THE COMPANY

The four objections raised by Mr. Colby have, in the course of time, been met in some degree by the Turkish Petroleum Company. The Iraq government was applied to for the concession, and granted it in legal form. Thus the Turkish Petroleum Company no longer depends upon a promise of doubtful legal validity made by the Sultan of Turkey just before the war intervened to cause general upheaval in the Near and Middle East. The principle of the open door has also been given partial recognition inasmuch as the Convention stipulates that after the Turkish Petroleum Company has picked its initial twenty-four blocks of land with total area of one hundred and ninety-two square miles, outsiders will be permitted in free competition to tender for leases subsequently offered by the Iraq Government. What was originally conceived as a monopoly has been modified to the less exclusive right of selecting a limited area in the best oil lands and of contending in open competition for further holdings as the remaining areas are gradually offered for lease.

American participation in the Turkish Petroleum Company, agreed upon on September, 1925, was not consummated until April, 1926. The reason for this final delay in the reconstitution of the Company

was the technical one of the manner in which the Company was to meet its obligation to Mr. C. S. Gulbenkian, up to that time the only private shareholder in the Company. Mr. Gulbenkian had served as mediator between the Turkish Government and the promoters of the Company in the early days of its existence. In recognition of his services he had been allotted a five per cent beneficiary interest in the Company, but without voting rights. The American group refused to participate in the Turkish Petroleum Company unless the claims of Mr. Gulbenkian were liquidated. Matters hung fire for a time, and in November, 1925, a rumor became current that the American group had decided to withdraw from the Company, having failed to carry its point. In April, however, a settlement was made whereby a royalty on the production of the Turkish Petroleum Company was substituted for the five per cent interest formerly allotted to Mr. Gulbenkian. Upon this basis the American group agreed to participate in the Company.

THE IMMEDIATE OUTLOOK

Under the chairmanship of Mr. H. E. Nicholls, formerly secretary to Mr. D'Arcy, and himself a believer in the future of Mesopotamian oil fields, the Turkish Petroleum Company is setting to work at last. Of the political uncertainties which formerly beset it only one remains to make its position in any sense precarious. The fact that Turkey has refused to concede the validity of the League award in the Turco-Iraq boundary dispute implies the hostility of Iraq's northern neighbor, whose proximity to oil-bearing lands makes it inadvisable to push development in the northern area immediately. How long this last delay will continue to be an obstacle is matter for conjecture, for negotiations between Turkey and Great Britain for an amicable settlement of Turkish claims are making but little progress.

From the point of view of the Turkish Petroleum Company itself there is, however, more immediate concern as to whether the diverse groups comprehended within it will be able to agree sufficiently among

themselves on the details of the project to carry out the undertaking without the development of too great friction. The solution of the first external difficulties of the

Turkish Petroleum Company brings it a step closer to the internal obstacles created by the diversity of interests of the participating groups.

List of References

Turkish Petroleum Company, Ltd. — Convention with Government of Iraq, made the 14th of March, 1925. London and Baghdad, 1925. Text of concession to Turkish Petroleum Company.

Memorandum of Agreement Signed at San Remo April 24, 1920. London. Parliamentary Papers, Cmd. 675, 1920.

International Accord. "The Lamp," April, 1926. Article on American participation in the Turkish Petroleum Company.

The Turkish Petroleum Company—A Study in Oleaginous Diplomacy, by Edward Mead Earle, *Political Science Quarterly*, Vol. XXXIX, No. 2; June, 1924. A historical outline of the development of the company from 1912 to 1924.

Turkey, the Great Powers and the Baghdad Railway, by Edward Mead Earle. Macmillan, 1923. A discussion of the international interests converging upon Mesopotamia and their relations to the exploitation of natural resources.

The Truth About Mesopotamia, Palestine and Syria, by J. de V. Loder. London, George Allen and Unwin, Ltd.

The Oil Encyclopedia. London, 1922.

The Petroleum Yearbook. London, 1923.

The Oil Trusts and Anglo-American Relations, by E. H. Davenport and S. R. Cooke. New York, 1924.

